

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-05

H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03

TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01

AGRE-00 STR-05 CEA-01 /115 W

-----106850 150902Z /12

R 150738Z SEP 77

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 8825

INFO AMEMBASSY LONDON

AMCONSUL JOHANNESBURG POUCH

AMCONSUL CAPE TOWN POUCH

AMCONSUL DURBAN POUCH

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AMEMBASSY LUSAKA

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AMEMBASSY MBABANE

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E.O. 11652: N/A

TAGS: ECON, SF

SUBJECT: PROSPECTS FOR SOUTH AFRICAN ECONOMY AS SEEN BY
ADVISER TO PRIME MINISTER

1. SUMMARY: PRIME MINISTER'S ECONOMIC ADVISER PREDICTS A
NON-WHITE HOUSING PROGRAM WILL SOON BE ANNOUNCED AS A FORM
OF SLOW STIMULATION TO THE ECONOMY. HE DOES NOT FORESEE A
GROWTH RATE IN 1978 HIGH ENOUGH TO MAKE A REAL DENT IN UN-
EMPLOYMENT AND CONCEDES A NUMBER OF NEGATIVE FACTORS IN THE
SOUTH AFRICAN ECONOMIC FUTURE, NOT LEAST OF WHICH IS A FEAR
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OF SANCTIONS. END SUMMARY

2. ECONOMIC COUNSELOR, ACCOMPANIED BY LABOR OFFICER, MET WITH
PIET RIEKERT, PRIME MINISTER'S ECONOMIC ADVISER, SEPT 13 TO
DISCUSS NEW COMMISSION TO STUDY LAWS AFFECTING BLACK LABOR,
OF WHICH RIEKERT IS CHAIRMAN AND ONLY MEMBER. RIEKERT, WHO
IS ALSO CHAIRMAN OF ECONOMIC ADVISORY COUNCIL COMPOSED MAINLY

OF LEADING BUSINESSMEN, HAS BEEN TOLD BY VORSTER TO REDUCE HIS OTHER ACTIVITIES TO CONCENTRATE ON COMMISSION. HE DID COMMENT FREELY, HOWEVER, ON OVERALL ECONOMIC SITUATION.

3. RIEKERT SAID SOUTH AFRICAN ECONOMY WOULD SOON HAVE TO BE HELPED OFF THE FLOOR OR BUSINESS CONFIDENCE IN THE FUTURE WOULD DISAPPEAR ENTIRELY. HE PREDICTED THIS WOULD BE IN FORM OF SELECTIVE STIMULATION TO INDUCE A SLOW RECOVERY, SPECIFICALLY HOUSING PROGRAMS FOR "BLACKS, BROWNS AND YELLOWS". THIS WOULD MEET SOCIOLOGICAL NEED, PROVIDE EMPLOYMENT DIRECTLY FOR BLACKS AND INCUR LEAST RISK OF GENERATING EXCESSIVE IMPORTS.

4. RIEKERT SEEMED DOUBTFUL OVER 1978 PROSPECTS. HE NOTED POOR PERFORMANCE OF EUROPEAN ECONOMIES, WEAKNESSES IN RAW MATERIAL EXPORT PRICES, AND FACT THAT IMPORTS COULD NOT BE EXPECTED TO REMAIN AT CURRENT MINIMAL LEVELS. BECAUSE CURRENT AGRICULTURAL RESULTS ARE MAKING SUCH A LARGE CONTRIBUTION TO GROWTH, EVEN AN EXCELLENT CROP NEXT YEAR, IF IT FELL 5 PERCENT BELOW THAT OF THIS YEAR, WOULD HAVE A NEGATIVE EFFECT ON GROSS PRODUCT. SLIPPAGE OF AGRICULTURAL PRICES MIGHT ALSO BE FACED.

5. RIEKERT COMMENTED THAT WITH A REAL GROWTH RATE OF 2.2 PERCENT IN 1975, -.5 PERCENT IN 1976 AND 1 PERCENT IN FIRST HALF OF 1977, NOBODY WAS EVEN DREAMING OF REACHING 4 PERCENT LIMITED OFFICIAL USE

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IN 1978. QUESTION OF WHETHER GROWTH WOULD BE 1 PERCENT OR 3 PERCENT WOULD BE GREAT SIGNIFICANCE IN TERMS OF EMPLOYMENT CREATED. (COMMENT: OTHER SAG STUDIES INDICATE A GROWTH RATE OF NEAR 6 PERCENT IS NEEDED TO PROVIDE ENOUGH JOBS FOR NEWCOMERS TO LABOR MARKET.)

6. RIEKERT CLAIMED IGNORANCE OF RECENT INDEPENDENT STUDY SHOWING NEARLY 19 PERCENT BLACK UNEMPLOYMENT IN JOHANNESBURG-PRETORIA AREA (JOHANNESBURG 2417). HE DISCOUNTED PRIVATE STUDIES AS LACKING SUFFICIENT RESOURCES TO GIVE ACCURATE PICTURE, PROMISING THAT SAG SURVEYS TO BEGIN NEXT MONTH WOULD GIVE FIRST RELIABLE FIGURES ON BLACK UNEMPLOYED.

7. THREAT OF ECONOMIC SANCTIONS AGAINST SA, WHICH HAS BEEN SPOTLIGHTED IN RECENT STATEMENTS BY PRIME MINISTER, OTHER CABINET MINISTERS, AND CHIEF OF DEFENSE FORCE, WAS ALSO RAISED BY RIEKERT, ALTHOUGH HE FAILED TO CLARIFY MOTIVATION OF GOVERNMENT IN SUDDENLY STRESSING THIS ISSUE. RIEKERT SAID WEST HAD BECOME MORE DANGEROUS TO SOUTH AFRICA THAN COMMUNISTS. WHILE SOUTH AFRICA REFUSED TO VIEW ITSELF AS ENEMY OF THE WEST, IT COULD NOT ALLOW ITS DECISIONS TO BE FORCED BY OUTSIDE PRESSURE.

8. LATTER REMARK MAY HAVE BEEN BROUGHT ON BY OUR SUGGESTION OF INTERNATIONAL INTEREST IN POSITIVE RESULTS FROM ONE-MAN LABOR COMMISSION. ALTHOUGH RIEKERT SAYS HE IS STILL READING INTO SUBJECT, HE APPARENTLY IS NOT PERSUADED BY PROPOSAL FROM OWN STAFF TO GRANT MORE "HORIZONTAL MOBILITY" (I.E. RELAX INFLUX CONTROLS). HE SAYS HE WOULD LIKE MARKET FORCES TO ACT MORE ON THE LABOR SITUATION, NARROWING THE RACIAL WAGE GAP AND ENABLING BLACK WORKERS TO PAY ECONOMIC RATES FOR HOUSING, TRANSPORT, ETC.

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9. ON HIS PREDICTED STIMULUS TO HOUSING SECTOR, RIEKERT FORESEES TWO AREAS OF ACTION: (A) CLARIFICATION FROM BANTU AFFAIRS DEPT ON BLACK FREEHOLD SO EMPLOYERS AND MORTGAGE COMPANIES CAN BE REASSURED ON COLLATERAL FOR LOANS; AND (B) LONG-TERM GOVERNMENT LOANS FOR AN EXPANDED HOUSING PROGRAM COMBINED WITH SHORT-TERM CREDITS ENABLING NEAR-BANKRUPT BUILDERS TO GET ON THEIR FEET.

10. COMMENT: ALTHOUGH MANY ECONOMISTS HAVE POINTED TO HOUSING AS THE SECTOR WHERE STIMULATION SEEMS TO MAKE SENSE, THE RESERVE BANK HAS HELD BACK ON THE GROUNDS THAT INJECTION LIMITED OFFICIAL USE

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OF NEW MONEY ANYWHERE IN ECONOMY AFFECTS BALANCE OF PAYMENTS. EVIDENTLY SITUATION HAS BECOME SEVERE ENOUGH THAT GOVERNMENT FEELS IT MUST GO AHEAD DESPITE THIS RISK.

11. RIEKERT, WHO IS LOOKING FORWARD TO RETIREMENT ON HIS CITRUS ESTATE NEXT YEAR AFTER 17 YEARS IN HIS POST, SEEMED TO ENJOY DERIDING MINISTER OF BANTU AFFAIRS FOR LACK OF ACTION ON HOUSING AND THE MINISTER OF FINANCE FOR HIS OUTBURSTS ON NUCLEAR POLICY AND FRENCH FOREIGN MINISTER. NEVERTHELESS, HE FAILED TO EXPLAIN GOVERNMENT'S PURPOSE IN LOUDLY PROCLAIMING DANGER OF SANCTIONS WHICH CAN ONLY FURTHER DAMAGE BUSINESS CONFIDENCE.

12. PROSPECTS FOR RIEKERT COMMISSION AND ITS RELATION TO WIEHAHN COMMISSION WILL BE SUBJECT OF FUTURE REPORTS FROM JOHANNESBURG.
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Disposition Approved on Date:
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